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TRUSTS AND ESTATES

A Shipman & Goodwin LLP® Newsletter

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This Newsletter summarizes recent changes to estate and gift tax exemptions and rules pertaining to retirement plan distributions and contributions, effective for 2025.

2025 Estate, Gift, and GST Tax Changes

The inflation-adjusted figures for federal and Connecticut estate, gift, and generation-skipping transfer ("GST") tax exemptions for 2025 are as follows:

- The annual gift tax exclusion amount (i.e., the amount you can give each year to someone free of gift tax and without using a portion of your lifetime exemption) increased from $18,000 to $19,000 (or $38,000 for a married couple).

- The federal lifetime gift and estate tax exemption amount (i.e., the total amount you can give away during your life or at death free of gift or estate tax) increased by $380,000 from $13.61 million to $13.99 million. This means that a married couple could transfer a combined total of $27.98 million without owing any federal estate tax. The top federal gift and estate tax rate remains 40%.

- The federal GST exemption amount similarly increased to $13.99 million. The GST tax is the tax on transfers to grandchildren or more remote descendants or to unrelated individuals who are more than 37 ½ years younger than you. The GST tax rate remains a flat 40%. Unlike the federal estate tax exemption, any GST tax exemption unused at one spouse's death cannot be used by the surviving spouse.

- The Connecticut lifetime gift and estate tax exemption amount will also increase from $13.61 million to $13.99 million. The Connecticut gift and estate tax rate remains at a flat 12%. Note, a surviving spouse cannot take advantage of any Connecticut unused exemption of the first-to-die spouse.

As a reminder, the federal lifetime gift and estate tax exemption was increased by the 2017 Tax Cuts & Jobs Act and, absent any change in the law, the exemption will decrease by about one-half on January 1, 2026. Whether Congress will let the exemption decrease in 2026 is hard to forecast, but it is safe to say that such a decrease is far from a certainty.

If you are concerned about the possibility of the estate tax exemption decreasing, you may wish to transfer property before the end of 2025 to use up all or most of your remaining exemption amount and "lock in" the higher exemption amount. Treasury Regulations (referred to as the "anti-clawback" rules) issued in 2019 effectively approved this strategy and clarified that, generally, the IRS will not impose an additional estate tax if

the exemption at an individual's death is lower than the exemption that had been available and used by the individual at the time the individual made lifetime gifts. Gifts designed to lock in use of your current estate tax exemption can be structured in many ways. Please contact us if you would like to explore your options.

Required Minimum Distributions

As described in prior newsletters, the SECURE Act, which was signed into law on December 20, 2019, made substantial changes to the rules governing IRAs and other qualified plans. One of the most significant changes eliminated the ability of most non-spouse beneficiaries to "stretch" withdrawals from inherited IRAs or other qualified retirement plans (known as required minimum distributions, or "RMDs") over the beneficiary's life expectancy. Instead, these beneficiaries are required to withdraw all of the account assets within ten years of the plan participant's death. (Note: This change affects accounts of participants who died after December 31, 2019.)
In recent years, there was significant confusion on whether beneficiaries subject to this new "ten-year rule" (i) must take RMDs over the course of the ten-year period before taking the balance of the assets at the end of the period or (ii) may defer all withdrawals during the ten-year period and take a single lump sum at the end of the period. The IRS finally clarified the application of the ten-year rule in Final Regulations issued in July 2024, which went into effect on January 1, 2025. The Final Regulations provide that if the participant died on or after the date that he or she had to begin taking RMDs (known as a required beginning date, or "RBD"), a non-spouse beneficiary must take RMDs each year throughout the ten-year period. In contrast, if the participant died prior to his or her RBD, a non-spouse beneficiary may simply take a single lump sum at the end of the ten-year period.

In recognition of the confusion in the application of the ten-year rule before the Final Regulations were issued, the IRS has provided some relief. Beneficiaries subject to the ten-year rule who should have taken RMDs in tax years 2021, 2022, 2023, or 2024 will not be penalized if they failed to do so. Beginning in 2025, however, beneficiaries who are required to take RMDs under the ten-year rule must take RMDs each year to avoid penalties. (Note: If you did not take RMDs in 2021, 2022, 2023, or 2024, there is no obligation to take make-up RMDs, and the ten-year period is not extended for the years you did not take an RMD.)

The SECURE 2.0 Act, which was signed into law on December 29, 2022, also made changes to the age when participants must begin taking RMDs (i.e., the "RBD"). Participants born after December 31, 1950, may defer taking RMDs until age 73, and participants born after December 31, 1959, may defer taking RMDs until age 75. (Note: For participants born in 1959, Congress is expected to issue technical corrections to the SECURE 2.0 Act to clarify that the RBD for participants born in 1959 is intended to be age 73. While this correction has not yet been issued, the IRS recently issued proposed regulations providing that the RBD for participants born in 1959 is age 73.)
Please note that RMDs are not required for Roth IRAs or Designated Roth accounts in a 401(k) or 403(b) plan during the owner's lifetime.

2025 IRA Qualified Charitable Distribution Changes

For individuals aged 70 ½ or over, the IRS allows you to make tax-free transfers directly from your IRA to any charity or charities of your choosing via a qualified charitable distribution ("QCD"). In 2025, the QCD limit increased from $105,000 to $108,000. Since QCDs go directly to charity, the funds transferred are excluded from your gross

income. Thus, QCDs allow you to exclude up to $108,000 from your gross income each year (or $216,000 for a married couple). In addition, for those individuals who are aged 73 and over, QCDs count toward your RMDs for the year.

2025 Retirement Plan Contribution Limit Changes

The IRS has also announced new contribution limits for retirement plans in 2025.

- The annual limit on contributions to an IRA remains at $7,000. In addition, for individuals aged 50 and over, the catch-up contribution limit remains at $1,000. Therefore, individuals aged 50 and over can contribute up to $8,000 to an IRA.

- The annual contribution limit for employees participating in 401(k), 403(b), and most 457 plans increased from $23,000 to $23,500. In addition, for employees aged 50 and over, the catch-up contribution limit generally remains at $7,500. However, starting in 2025, individuals aged 60 to 63 have a different catch-up contribution limit of $11,250. Therefore, employees aged 50 and over can generally contribute up to $31,000 to their 401(k), 403(b), and 457 plans, and employees aged 60-63 can contribute up $34,750 to their 401(k), 403(b), and 457 plans.

Questions or Assistance

Please contact your Shipman & Goodwin estate planning attorney if you have any questions on the issues described above or would like to review your estate plan generally.

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